

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

## Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 20
Statement of Cash Flows	I 21
Notes to Basic Financial Statements	22-31
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	32
Notes to Required Supplementary Information - Budgetary Reporting	33
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 35
Schedule of Changes in Student Activity Accounts	3 36
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4 37
Schedule of Expenditures of Federal Awards	5 38-39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	40-41
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Findings and Questioned Costs	44-50

Lineville-Clio Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2005 election)</b>		
David Brennecke	President	2006
Loris Nickell	Vice President	2007
Kent Vogel	Board Member (Resigned)	2007
Cherlyn Hullinger	Board Member (Appointed)	2005
Virginia Clow	Board Member	2005
Sam Walkup	Board Member	2005
<b>Board of Education</b>		
<b>(After September 2005 election)</b>		
David Brennecke	President	2006
Loris Nickell	Vice President	2007
Judy Shields	Board Member	2007
Virginia Clow	Board Member	2008
Cherlyn Hullinger	Board Member	2008
<b>School Officials</b>		
Robert McCurdy	Superintendent	2006
Teresa Comer-Joki	District Secretary/ Treasurer and Business Manager	2006
Monty Franklin	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District, Lineville-Clio Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Lineville-Clio Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

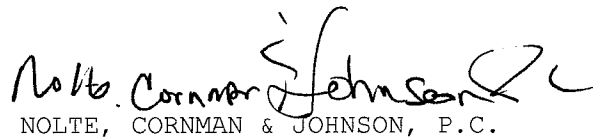
In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2007 on our consideration of the Lineville-Clio Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lineville-Clio Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2007

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Lineville-Clio Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$967,337 in fiscal 2005 to \$1,837,138 in fiscal 2006, while General Fund expenditures increased from \$1,036,209 in fiscal 2005 to \$1,773,937 in fiscal 2006. This resulted in an increase in the District's General Fund balance of \$34,384 in fiscal 2005 to \$133,585 in fiscal 2006, a 288.58% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to increase expenses tied to the federal grant.
- An increase in interest rates during the past fiscal year and an increase in revenue received resulted in interest earnings in the General Fund to increase from \$2,745 in fiscal year 2005 to \$22,674 in fiscal year 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lineville-Clio Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lineville-Clio Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lineville-Clio Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Lineville-Clio Community School District Annual Financial Report***

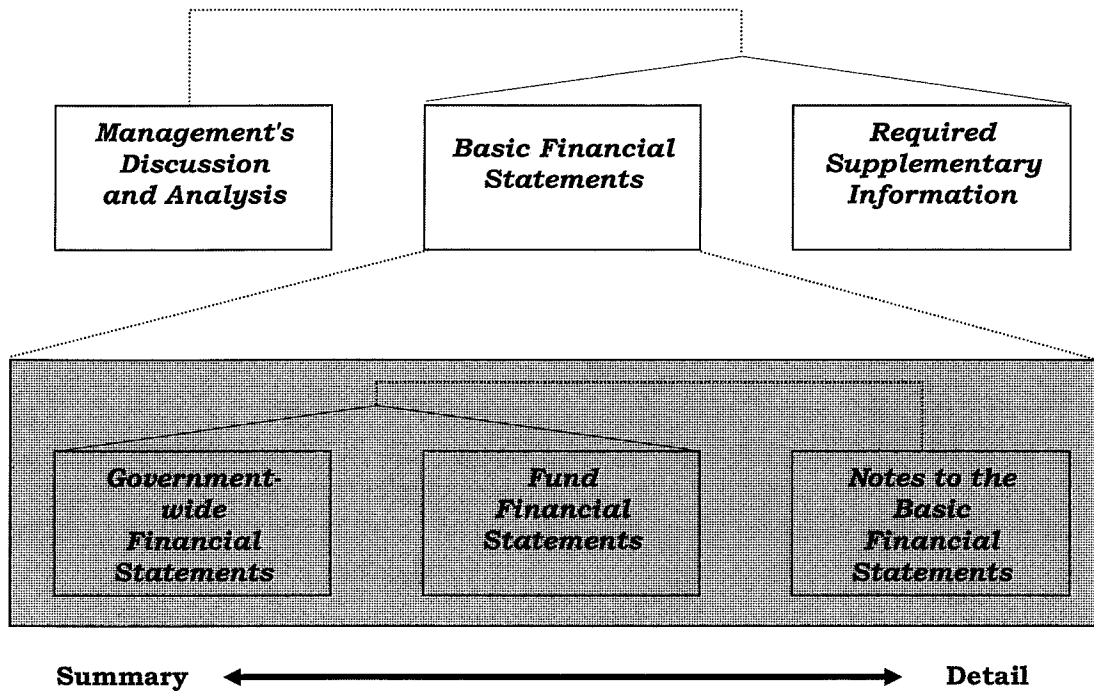


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provides more detail and additional information such as cash flows. The District currently has one internal service fund, the Health Insurance Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 1,176,380	1,151,794	607	794	1,176,987	1,152,588	2.12%
Capital assets	958,912	996,024	456	795	959,368	996,819	-3.76%
Total assets	2,135,292	2,147,818	1,063	1,589	2,136,355	2,149,407	-0.61%
Long-term obligations	875,458	910,000	0	0	875,458	910,000	-3.80%
Other liabilities	910,529	1,081,672	5,336	3,033	915,865	1,084,705	-15.57%
Total liabilities	1,785,987	1,991,672	5,336	3,033	1,791,323	1,994,705	-10.20%
Net assets:							
Investment in capital assets, net of related debt	133,840	128,510	456	795	134,296	129,305	3.86%
Restricted	65,568	42,935	0	0	65,568	42,935	52.71%
Unrestricted	149,897	(15,299)	(4,729)	(2,239)	145,168	(17,538)	927.73%
Total net assets	\$ 349,305	156,146	(4,273)	(1,444)	345,032	154,702	123.03%

The District's combined net assets increased by 123.03%, or \$190,330 over the prior year. The largest portion of the District's net assets is the invested in capital assets less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$22,633, or 52.71% over the prior year. The increase was primarily a result of an increase in the Special Revenue, Physical Plant and Equipment Levy Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$162,706, or 927.73%. This increase in unrestricted net assets was a result of the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 130,139	38,032	21,963	25,420	152,102	63,452	139.71%
Operating grants and contributions and restricted interest	1,006,875	215,574	24,497	24,675	1,031,372	240,249	329.29%
General revenues:							
Property tax	421,930	368,759	0	0	421,930	368,759	14.42%
Income surtax	38,212	8,003	0	0	38,212	8,003	377.47%
Local option sales and services tax	68,815	51,204	0	0	68,815	51,204	34.39%
Unrestricted state grants	258,353	460,514	0	0	258,353	460,514	-43.90%
Unrestricted investment earnings	26,438	1,036	63	10	26,501	1,046	2433.56%
Other general revenues	163,960	7,113	0	0	163,960	7,113	0.00%
Total revenues	2,114,722	1,150,235	46,523	50,105	2,161,245	1,200,340	80.05%
Program expenses:							
Governmental activities:							
Instructional	704,613	820,913	0	0	704,613	820,913	-14.17%
Support services	735,440	286,288	252	0	735,692	286,288	156.98%
Non-instructional programs	395,183	0	49,100	52,568	444,283	52,568	745.16%
Other expenses	86,327	71,937	0	0	86,327	71,937	20.00%
Total expenses	1,921,563	1,179,138	49,352	52,568	1,970,915	1,231,706	60.02%
Change in net assets	193,159	(28,903)	(2,829)	(2,463)	190,330	(31,366)	706.80%
Beginning net assets	156,146	185,049	(1,444)	1,019	154,702	186,068	-16.86%
Ending net assets	\$ 349,305	156,146	(4,273)	(1,444)	345,032	154,702	123.03%

In fiscal 2006, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 37.22% of the revenue and transfers from governmental activities while charges for service and sales and operating grants and contributions account for 99.86% of the revenue and transfers from business-type activities.

The District's total revenues were \$2,161,245 of which \$2,114,722 was for governmental activities and \$46,523 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 80.05% increase in revenues and a 60.02% increase in expenses.

### Governmental Activities

Revenues for governmental activities were \$2,114,722 and expenses were \$1,921,563.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-06	2006	2005	Change 2005-06
Instruction	\$ 704,613	820,913	-14.17%	282,554	602,284	-53.09%
Support services	735,440	286,288	156.89%	735,440	284,468	158.53%
Non-instructional programs	395,183	0	100.00%	(290,980)	0	-100.00%
Other expenses	86,327	71,937	20.00%	57,535	31,667	81.69%
Totals	<u>\$ 1,921,563</u>	<u>1,179,138</u>	<u>62.96%</u>	<u>784,549</u>	<u>918,419</u>	<u>-14.58%</u>

- The cost financed by users of the District's programs was \$130,139.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,006,875.
- The net cost of governmental activities was financed with \$421,930 in property tax, \$38,212 in income surtax, \$68,815 in local option sales and services tax, \$258,353 in unrestricted state grants, \$26,438 in unrestricted investment earnings and \$163,960 in other general revenues.

#### **Business-Type Activities**

Revenues of the District's business-type activities were \$46,523 and expenses were \$49,352. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Lineville-Clio Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$250,475 above last year's ending fund balances of a \$87,926. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the increase in the General Fund balance.

#### **Governmental Fund Highlights**

- The District's increase in General Fund financial position is the product of many factors. Growth during the year in local tax, state and federal grants resulted in an increase in revenues. The increase in District's expenditures was due to increases in negotiated salaries and benefits, as well as additional expenses tied to the federal award received during the year.
- The Capital Projects Fund balance increased from \$9,099 at June 30, 2005 to \$39,465 at June 30, 2006. This increase was due in part to increase local option sales and services tax received during the fiscal year.
- The Debt Service Fund balance increased from \$1,508 at June 30, 2005 to \$13,584 at June 30, 2006. This increase was due to the transfer from the Capital Projects Fund to provide debt relief in assisting the repayment of the General Obligation Bonds.

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## Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from a deficit \$1,444 at June 30, 2005 to a deficit \$4,273 at June 30, 2006, representing a decrease of 195.91%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$121,258 more than budgeted revenues, a variance of 6.00%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs function.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$959,368, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.75% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$37,451.

The original cost of the District's capital assets was \$1,070,147. Governmental funds account for \$1,067,745 with the remainder of \$2,402 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$921,832 at June 30, 2005, compared to \$903,019 reported at June 30, 2006. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Buildings	\$ 903,019	921,832	0	0	903,019	921,832	-2.04%
Machinery and equipment	55,893	74,192	456	795	56,349	74,987	-24.85%
Total	\$ 958,912	996,024	456	795	959,368	996,819	-3.76%

### Long Term Debt

At year-end, the District had \$875,458 in general obligation and other long-term debt outstanding. This represents a decrease of 3.8% from last year's balance of \$910,000. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 875,000	910,000	-3.8%
Compensated absences	458	0	100.0%
Totals	<u>\$ 875,458</u>	<u>910,000</u>	<u>-3.8%</u>

The District had \$875,000 in general obligation bonds outstanding at June 30, 2006.

The District had compensated absences payable of \$458 at June 30, 2006 payable from the General Fund.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of this existing circumstance that could significantly affect its financial health in the future:

- The District's enrollment certified to the Department of Education in September 2005 was overstated by 1 student. Future state foundation aid payments will be reduced.
- The District has experienced declining enrollment the past several years and expects that trend to continue.
- As a result of declining enrollment, property taxes will be raised to fund a greater share of regular program costs.
- The District will continue receiving the Safe Schools/Healthy Students grant. This grant will generate additional revenues and expenses for the next two fiscal years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cheryl Porter, Board Secretary, Lineville-Clio Community School District, 200 W 6th St, Lineville, Iowa, 50147.

## BASIC FINANCIAL STATEMENTS





LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 351,032	0	351,032
Other	270,608	0	270,608
Receivables			
Property tax:			
Delinquent	9,473	0	9,473
Succeeding year	405,792	0	405,792
Income surtax	18,497	0	18,497
Accounts	57	0	57
Accrued ISCAP interest(Note 4)	3,592	0	3,592
Due from other governments	117,329	31	117,360
Inventories	0	576	576
Capital assets, net of accumulated depreciation(Note 5)	958,912	456	959,368
<b>TOTAL ASSETS</b>	<b>2,135,292</b>	<b>1,063</b>	<b>2,136,355</b>
<b>LIABILITIES</b>			
Excess of warrants issued over bank balance	0	537	537
Accounts payable	5,207	0	5,207
Salaries and benefits payable	120,450	4,303	124,753
Interest payable	3,121	0	3,121
ISCAP warrants payable(Note 4)	350,000	0	350,000
ISCAP accrued interest payable(Note 4)	3,389	0	3,389
ISCAP unamortized premium	2,425	0	2,425
Deferred revenue:			
Succeeding year property tax	405,792	0	405,792
Other	20,145	0	20,145
Unearned revenue	0	496	496
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	40,000	0	40,000
Compensated absences	458	0	458
Portion due after one year:			
General obligation bonds payable	835,000	0	835,000
<b>TOTAL LIABILITIES</b>	<b>1,785,987</b>	<b>5,336</b>	<b>1,791,323</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	133,840	456	134,296
Restricted for:			
Additional teacher contract day	9	0	9
Talented and gifted	1,718	0	1,718
Management levy	11,191	0	11,191
Physical plant and equipment levy	24,895	0	24,895
Other special revenue purposes	27,755	0	27,755
Unrestricted	149,897	(4,729)	145,168
<b>TOTAL NET ASSETS</b>	<b>\$ 349,305</b>	<b>(4,273)</b>	<b>345,032</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 459,661	87,512	286,857	(85,292)	0	(85,292)
Special instruction	83,336	0	5,063	(78,273)	0	(78,273)
Other instruction	161,616	42,627	0	(118,989)	0	(118,989)
	704,613	130,139	291,920	(282,554)	0	(282,554)
Support services:						
Student services	62,793	0	0	(62,793)	0	(62,793)
Instructional staff services	13,030	0	0	(13,030)	0	(13,030)
Administration services	501,207	0	0	(501,207)	0	(501,207)
Operation and maintenance of plant services	117,711	0	0	(117,711)	0	(117,711)
Transportation services	40,699	0	0	(40,699)	0	(40,699)
	735,440	0	0	(735,440)	0	(735,440)
Non-instructional programs:						
Community service operations	395,183	0	686,163	290,980		290,980
Other expenditures:						
Interest and fiscal charges	38,722	0	0	(38,722)	0	(38,722)
AEA flowthrough	28,792	0	28,792	0	0	0
Depreciation(unallocated)*	18,813	0	0	(18,813)	0	(18,813)
	86,327	0	28,792	(57,535)	0	(57,535)
Total governmental activities	1,921,563	130,139	1,006,875	(784,549)	0	(784,549)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	252	252	0	0	0	0
Non-instructional programs:						
Food service operations	49,100	21,711	24,497	0	(2,892)	(2,892)
Total business-type activities	49,352	21,963	24,497	0	(2,892)	(2,892)
Total	\$ 1,970,915	152,102	1,031,372	(784,549)	(2,892)	(787,441)
General Revenues:						
Property tax for:						
General purposes			\$ 351,002	0		351,002
Capital outlay			27,153	0		27,153
Debt service			43,775	0		43,775
Income surtax:			38,212	0		38,212
Local option sales and services tax			68,815	0		68,815
Unrestricted state grants			258,353	0		258,353
Unrestricted investment earnings			26,438	63		26,501
Other general revenue			163,960	0		163,960
Total general revenues			977,708	63		977,771
Changes in net assets			193,159	(2,829)		190,330
Net assets beginning of year			156,146	(1,444)		154,702
Net assets end of year			\$ 349,305	(4,273)		345,032

\* This amount excludes the depreciation that is included in the direct expense of various programs.  
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 351,032	0	0	0	351,032
Other	172,210	22,478	12,600	63,320	270,608
Receivables:					
Property tax:					
Delinquent	7,385	0	984	1,104	9,473
Succeeding year	317,505	0	36,848	51,439	405,792
Income surtax	18,497	0	0	0	18,497
Accounts	57	0	0	0	57
Accrued ISCAP interest(Note 4)	3,592	0	0	0	3,592
Due from other governments	100,342	16,987	0	0	117,329
<b>TOTAL ASSETS</b>	<b>\$ 970,620</b>	<b>39,465</b>	<b>50,432</b>	<b>115,863</b>	<b>1,176,380</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 4,624	0	0	583	5,207
Salaries and benefits payable	120,450	0	0	0	120,450
ISCAP warrants payable(Note 4)	350,000	0	0	0	350,000
ISCAP accrued interest payable(Note 4)	3,389	0	0	0	3,389
ISCAP unamortized premium	2,425	0	0	0	2,425
Deferred revenue:					
Succeeding year property tax	317,505	0	36,848	51,439	405,792
Income surtax	18,497	0	0	0	18,497
Other	20,145	0	0	0	20,145
Total liabilities	837,035	0	36,848	52,022	925,905
Fund balances:					
Reserved for:					
Debt service	0	0	13,584	0	13,584
Additional teacher contract day	9	0	0	0	9
Talented and gifted	1,718	0	0	0	1,718
Unreserved:					
General	131,858	0	0	0	131,858
Capital projects	0	39,465	0	0	39,465
Management	0	0	0	11,191	11,191
Physical plant and equipment levy	0	0	0	24,895	24,895
Other special revenue purposes	0	0	0	27,755	27,755
Total fund balances	133,585	39,465	13,584	63,841	250,475
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 970,620</b>	<b>39,465</b>	<b>50,432</b>	<b>115,863</b>	<b>1,176,380</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 15)</b>	\$ 250,475
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	958,912
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	18,497
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,121)
Long-term liabilities, including general obligation bonds payable and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(875,458)
<b>Net assets of governmental activites (page 13)</b>	<u>\$ 349,305</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 348,729	68,815	43,775	49,141	510,460
Tuition	28,821	0	0	0	28,821
Other	231,372	551	3,160	57,564	292,647
Intermediate sources	400	0	0	0	400
State sources	495,400	0	38	43	495,481
Federal sources	768,058	0	0	0	768,058
Total revenues	1,872,780	69,366	46,973	106,748	2,095,867
Expenditures:					
Current:					
Instruction:					
Regular instruction	471,180	0	0	2,989	474,169
Special instruction	83,336	0	0	0	83,336
Other instruction	128,811	0	0	32,805	161,616
	683,327	0	0	35,794	719,121
Support services:					
Student services	55,689	0	0	0	55,689
Instructional staff services	13,030	0	0	0	13,030
Administration services	455,840	0	0	41,394	497,234
Operation and maintenance of plant services	111,740	0	0	5,971	117,711
Transportation services	30,336	0	0	2,683	33,019
	666,635	0	0	50,048	716,683
Non-instructional programs:					
Community service operations	395,183	0	0	0	395,183
Other expenditures:					
Long-term debt:					
Principal	0	0	35,000	0	35,000
Interest and fiscal charges	0	0	38,897	0	38,897
AEA flowthrough	28,792	0	0	0	28,792
	28,792	0	73,897	0	102,689
Total expenditures	1,773,937	0	73,897	85,842	1,933,676
Excess(deficiency) of revenues over(under) expenditures	98,843	69,366	(26,924)	20,906	162,191
Other financing sources(uses):					
Sale of equipment	358	0	0	0	358
Transfers in	0	0	39,000	0	39,000
Transfers out	0	(39,000)	0	0	(39,000)
Total other financing sources(uses)	358	(39,000)	39,000	0	358
Net change in fund balances	99,201	30,366	12,076	20,906	162,549
Fund balance beginning of year	34,384	9,099	1,508	42,935	87,926
Fund balance end of year	\$ 133,585	39,465	13,584	63,841	250,475

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 162,549

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense	\$ (37,112)	(37,112)
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Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		18,497
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		175
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Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		35,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		
Compensated absences		(458)

The following are net adjustments needed to reconcile prior year balances stated in the notes that were not reflected on the Statement of Net Assets:

Overstatement of long-term debt	\$ 35,000	
Overstatement of capital assets	(20,492)	14,508

Changes in net assets of governmental activities (page 14)		<u>\$ 193,159</u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<u>School Nutrition</u>
Assets	
Due from other governments	\$ 31
Inventories	576
Capital assets, net of accumulated depreciation(Note 5)	<u>456</u>
Total current assets	<u>1,063</u>
Liabilities	
Excess of warrants issued over bank balance	537
Salaries and benefits payable	4,303
Unearned revenue	<u>496</u>
Total liabilities	<u>5,336</u>
Net Assets	
Investment in capital assets, net of related debt	456
Unrestricted	<u>(4,729)</u>
Total net assets	<u>\$ (4,273)</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 21,963
Total operating revenues	<u>21,963</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services	
Services	<u>252</u>
Non-instructional programs:	
Food service operations:	
Salaries	14,448
Benefits	4,958
Services	1,142
Supplies	28,213
Depreciation	339
	<u>49,100</u>
Total operating expenses	<u>49,352</u>
Operating loss	<u>(27,389)</u>
Non-operating revenues:	
State sources	540
Federal sources	23,957
Interest income	63
Total non-operating revenues	<u>24,560</u>
Change in net assets	(2,829)
Net assets beginning of year	<u>(1,444)</u>
Net assets end of year	<u>\$ (4,273)</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 22,405
Cash received from miscellaneous operating activities	54
Cash payments to employees for services	(17,457)
Cash payments to suppliers for goods or services	(25,504)
Net cash used in operating activities	<u>(20,502)</u>
Cash flows from non-capital financing activities:	
State grants received	509
Federal grants received	20,072
Net cash provided by non-capital financing activities	<u>20,581</u>
Cash flows from investing activities:	
Interest on investments	63
Net cash provided by investing activities	<u>63</u>
Net increase in cash and cash equivalents	142
Cash and cash equivalents at beginning of year	<u>(679)</u>
Cash and cash equivalents at end of year	<u><u>\$ (537)</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (27,389)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	3,885
Depreciation	339
Decrease in inventories	218
Increase in salaries and benefits payable	1,949
Increase in unearned revenue	496
Net cash used in operating activities	<u><u>\$ (20,502)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ (537)</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received  
Federal commodities valued at \$3,885.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Lineville-Clio Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Lineville and Clio, Iowa, and the predominate agricultural territory in Wayne and Decatur Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lineville-Clio Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lineville-Clio Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne and Decatur Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Investment in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings	\$ 5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused sick leave for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs function exceeded the amount budgeted.

#### (2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment

companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the district had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 270,022</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

### (3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 39,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/05	6/28/06	\$ 664	0	0	0
2005-06B	1/26/06	1/26/07	175,611	3,538	175,000	3,344
2006-07A	6/28/06	6/28/07	174,757	54	175,000	45
Total			<u>\$ 351,032</u>	<u>3,592</u>	<u>350,000</u>	<u>3,389</u>

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the district must repay the outstanding withdrawal from its General Fund receipts. In addition, the district must



make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06B	\$ 0	10,000	10,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

#### (5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 940,645	0	0	940,645
Machinery and equipment	127,100	0	0	127,100
Total capital assets being depreciated	1,067,745	0	0	1,067,745
Less accumulated depreciation for:				
Buildings	18,813	18,813	0	37,626
Machinery and equipment	52,908	18,299	0	71,207
Total accumulated depreciation	71,721	37,112	0	108,833
Governmental activities capital assets, net	\$ 996,024	(37,112)	0	958,912
Business-type activities:				
Machinery and equipment	\$ 3,152	0	750	2,402
Less accumulated depreciation	2,357	339	750	1,946
Business-type activities capital assets, net	\$ 795	(339)	0	456

Depreciation expense was charged by the District as follows:

Governmental activities:

Support services:

Student services	\$ 7,104
Administration	3,515
Transportation	7,680
Administration	<u>18,299</u>
Unallocated depreciation	<u>18,813</u>

Total governmental activities depreciation expense	<u>\$ 37,112</u>
--	------------------

Business-type activities:

Food services	\$ 339
Total business-type activities depreciation expense	<u>\$ 339</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 910,000	0	35,000	875,000	40,000
Compensated absences	0	458	0	458	458
Total	<u>\$ 910,000</u>	<u>458</u>	<u>35,000</u>	<u>875,458</u>	<u>40,458</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 1, 2003			
	Interest Rates	Principal	Interest	Total
2007	3.00 %	\$ 40,000	37,447	77,447
2008	3.50	40,000	36,248	76,248
2009	4.00	40,000	34,847	74,847
2010	4.00	40,000	33,248	73,248
2011	4.00	45,000	31,647	76,647
2012-2016	4.00-4.30	240,000	130,438	370,438
2017-2021	4.40-4.70	295,000	74,322	369,322
2022-2023	4.75-4.80	135,000	9,808	144,808
Total		<u>\$ 875,000</u>	<u>388,005</u>	<u>1,263,005</u>

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$49,588, \$70,136 and \$55,709 respectively, equal to the required contributions for each year.

**(8) Risk Management**

Lineville-Clio Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$28,792 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Deficit Net Assets**

The School Nutrition Fund had deficit net assets of \$4,273 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Fund Types	Fund Type	Actual	Original	Final	
	Actual	Actual	Actual	Original	Final	
Revenues:						
Local sources	\$ 831,928	22,026	853,954	623,917	623,917	230,037
Intermediate sources	400	0	400	1,200	1,200	(800)
State sources	495,481	540	496,021	540,898	540,898	(44,877)
Federal sources	768,058	23,957	792,015	855,117	855,117	(63,102)
Total revenues	<u>2,095,867</u>	<u>46,523</u>	<u>2,142,390</u>	<u>2,021,132</u>	<u>2,021,132</u>	<u>121,258</u>
Expenditures:						
Instruction	719,121	0	719,121	906,953	906,953	187,832
Support services	716,683	252	716,935	1,055,857	1,055,857	338,922
Non-instructional programs	395,183	49,100	444,283	146,353	146,353	(297,930)
Other expenditures	102,689	0	102,689	138,597	138,597	35,908
Total expenditures	<u>1,933,676</u>	<u>49,352</u>	<u>1,983,028</u>	<u>2,247,760</u>	<u>2,247,760</u>	<u>264,732</u>
Excess(deficiency) of revenues over(under) expenditures	162,191	(2,829)	159,362	(226,628)	(226,628)	(385,990)
Other financing sources, net	358	0	358	0	0	(358)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	162,549	(2,829)	159,720	(226,628)	(226,628)	(386,348)
Balance beginning of year	87,926	(1,444)	86,482	325,575	325,575	(239,093)
Balance end of year	<u>\$ 250,475</u>	<u>(4,273)</u>	<u>246,202</u>	<u>98,947</u>	<u>98,947</u>	<u>147,255</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
Assets				
Cash and pooled investments	\$ 10,697	27,755	24,868	63,320
Receivables:				
Property tax:				
Current year delinquent	494	0	610	1,104
Succeeding year	24,000	0	27,439	51,439
Total assets	\$ 35,191	27,755	52,917	115,863
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 0	0	583	583
Deferred revenue:				
Succeeding year property tax	24,000	0	27,439	51,439
Total liabilities	24,000	0	28,022	52,022
Fund balances:				
Unreserved:				
Undesignated	11,191	27,755	24,895	63,841
Total fund balances	11,191	27,755	24,895	63,841
Total liabilities and fund balances	\$ 35,191	27,755	52,917	115,863

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Nonmajor Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
Revenues:				
Local sources:				
Local tax	\$ 21,988	0	27,153	49,141
Other	1,367	43,137	13,060	57,564
State sources	19	0	24	43
Total revenues	23,374	43,137	40,237	106,748
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,989	0	0	2,989
Other instruction	0	32,805	0	32,805
Support services:				
Administration services	25,722	0	15,672	41,394
Operation and maintenance of plant services	0	0	5,971	5,971
Student transportation	2,683	0	0	2,683
Total expenditures	31,394	32,805	21,643	85,842
Net change in fund balances	(8,020)	10,332	18,594	20,906
Fund balance beginning of year	19,211	17,423	6,301	42,935
Fund balance end of year	\$ 11,191	27,755	24,895	63,841

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Cheerleading	\$ 74	48	0	122
SES	155	0	0	155
Drama	145	561	256	450
FCCLA	1,179	69	0	1,248
Horticulture	49	0	49	0
Athletics	3,799	6,545	3,669	6,675
Miscellaneous	(1,950)	17,968	14,612	1,406
Playground	1,606	879	320	2,165
Interest	452	919	505	866
Flower Fund	43	156	106	93
Student Council	177	117	68	226
Nutrition	2,813	245	19	3,039
Spanish	278	(278)	0	0
National Honors Society	247	(37)	13	197
Annuals	4,719	1,290	1,736	4,273
Field Trip	270	604	0	874
Class of 2003	177	0	177	0
Class of 2004	642	0	642	0
Class of 2005	853	5,705	6,135	423
Class of 2006	1,002	1,930	2,685	247
Class of 2007	492	2,887	1,366	2,013
Class of 2008	68	532	66	534
Class of 2009	133	924	0	1,057
Class of 2010	0	163	0	163
Class of 2011	0	73	0	73
Elementary School Funds	0	1,837	381	1,456
Total	\$ 17,423	43,137	32,805	27,755

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax	\$	510,460	419,963	363,171	341,226
Tuition		28,821	38,012	40,703	36,493
Other		292,647	87,589	86,518	105,961
Intermediate sources		400	1,800	0	1,954
State sources		495,481	528,347	480,380	512,981
Federal sources		768,058	74,524	79,929	60,294
Total	\$	2,095,867	1,150,235	1,050,701	1,058,909
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	\$	474,169	532,941	543,880	523,559
Special instruction		83,336	141,501	67,827	78,303
Other instruction		161,616	141,867	192,309	155,750
Support services:					
Student services		55,689	13,936	13,574	14,432
Instructional staff services		13,030	2,784	10,236	10,536
Administration services		497,234	144,375	121,110	114,335
Operation and maintenance of plant services		117,711	96,930	141,155	81,374
Transportation services		33,019	20,156	25,160	44,551
Other support services		0	127	19,360	17,535
Non-instructional programs		395,183	0	0	0
Other expenditures:					
Facilities acquisitions		0	971,552	60,022	0
Long-term debt:					
Principal		35,000	35,000	0	0
Interest and other charges		38,897	40,898	0	0
AEA flow-through		28,792	28,043	29,089	29,401
Total	\$	1,933,676	2,170,110	1,223,722	1,069,776

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 06	\$ 686,163
RURAL EDUCATION ACHIEVEMENT PROGRAM(REAP)	84.358	FY 04	16,549
RURAL EDUCATION ACHIEVEMENT PROGRAM(REAP)	84.358	FY 05	16,054
			<u>32,603</u>
RURAL HEALTH CARE SERVICES OUTREACH AND			
RURAL HEALTH NETWORK DEVELOPMENT PROGRAM	93.912	FY 06	<u>5,073</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 06	<u>3,885</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	14,884
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	5,188
			<u>20,072</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	3705-G	<u>21,215</u>
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>726</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES(TITLE V PROGRAM)	84.298	FY 06	<u>280</u>
TITLE IIA - FEDERAL TEACHER QUALITY			
PROGRAM	84.367	FY 06	<u>6,262</u>
GRANTS FOR STATE ASSESSMENTS AND			
RELATED ACTIVITIES(TITLE VI A)	84.369	FY 06	<u>432</u>
VOCATIONAL EDUCATION - BASIC GRANTS			
TO STATES	84.048	FY 06	<u>1,686</u>

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	5,063
TOTAL			\$ 783,460

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lineville-Clio Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Lineville-Clio Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 19, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lineville-Clio Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

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immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Lineville-Clio Community School District and other parties to Lineville-Clio Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lineville-Clio Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

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### Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Lineville-Clio Community School District

#### Compliance

We have audited the compliance of Lineville-Clio Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Lineville-Clio Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Lineville-Clio Community School District's management. Our responsibility is to express an opinion on Lineville-Clio Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lineville-Clio Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lineville-Clio Community School District's compliance with those requirements.

In our opinion, Lineville-Clio Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of Lineville-Clio Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lineville-Clio Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

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relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lineville-Clio Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2007

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual
    - CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lineville-Clio Community School District did not qualify as a low-risk auditee.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- II-B-06 Authorized Check Signatures - We noted during our audit that some checks written were not signed by authorized check signers.

Recommendation - The Board President or designated individual, and the Board Secretary are required to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District will implement procedures so the Board President and Board Secretary's signatures are on all checks.

Conclusion - Response accepted.

- II-C-06 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Per Chapter 544D.114 of the Code of Iowa, the District is required to have retained both the front and back of check images.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - The District will contact our bank so they will provide us with the photo image showing both the front and the back of the checks.

Conclusion - Response accepted.

II-D-06 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

There is a Playground account recorded in the Student Activity Fund. This account should be transferred into the Physical Plant and Equipment Fund where allowable expenditures can be made.

There is a Flower Fund and a Nutrition activity account. These receipts and expenditures appear to be more instructional in nature; therefore, they should be moved to the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District will review the accounts and various transactions noted in the Activity Fund and will implement the needed corrections.

Conclusion - Response accepted.

II-E-06 Board Policies - We noted during our audit that the District is currently reviewing the board policy book. The District is required to have policies in the policy book updated every five years. Policies that were not available at the time of audit include a Disposal of Assets and Capital Asset Capitalization policies.

Recommendation - The District needs to review the board policy book for policies that have not been reviewed within the past five years. The District may need to contact the Department of Education or IASB for guidance on policies not available. The District needs to review the board policies and update the policy book.

Response - The District will review the Board Policy Book and review the policies as needed.

Conclusion - Response accepted.

II-F-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>. The District should submit the outstanding checks to the State Treasurer as unclaimed property. The District should review if checks should be voided or rewritten.

Response - The District will submit the outstanding checks to the State Treasurer and will implement procedures to do this on a regular basis.

Conclusion - Response accepted.

II-G-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-H-06 Free and Reduced Lunch Applications - We noted during our audit that two of the free and reduced lunch applications in our testing were marked as reduced, but actually should have been marked as free.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will review the procedures in place to ensure applications are properly filed in the future. The District will also contact the Department of Education to correct the necessary reports.

Conclusion - Response accepted.

II-I-06 Paying from Copies of Invoices - We noted during our audit that the District is reimbursing federal grant expenses to other entities that are submitting copies of invoices.

Recommendation - The District should review its control procedures to obtain the original invoices as source documentation to support payments.

Response - We will review procedures in place and pay from original invoices in the future.

Conclusion - Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - National Program  
Federal Award Year: 2006  
U.S. Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

III-B-06 Paying from Copies of Invoices - We noted during our audit that the District is reimbursing federal grant expenses to other entities that are submitting copies of invoices.

Recommendation - The District should review its control procedures to obtain the original invoices as source documentation to support payments.

Response - We will review procedures in place and pay from original invoices in the future.

Conclusion - Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the non-instructional programs function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. However, we did note three individuals who received a travel allowance and cell phone allowance which were not included on the W-2.

Recommendation - The District should report travel and cell phone allowances with the payroll subjecting it to payroll taxes.

Response - We will run allowances for travel and cell phones through payroll in the future.

Conclusion - Response accepted.

IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required; however, we are unable to control the publishing dates.

Conclusion - Response accepted.

IV-G-06 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students in line 1 was overstated by one student. In addition, the open enrollment in line 8 was overstated by .1 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

IV-J-06 Financial Condition - The District had deficit net assets of \$4,273 in the School Nutrition Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor this fund and investigate any available options to eliminate this deficit.

Conclusion - Response accepted.